

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 1994

Commission File Number: 0-19836

**AMERICA ONLINE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**54-1322110**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**8619 Westwood Center Drive, Vienna, Virginia**  
(Address of Principal Executive Offices)

**22182-2285**  
(Zip Code)

Registrant's telephone number, including area code: (703) 448-8700

Securities registered pursuant to section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:

**Common Stock, par value \$.01 per share**

**Preferred Share Purchase Rights**

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ☒ ]

As of August 31, 1994, the aggregate market value of voting stock held by non-affiliates of the registrant, based upon the closing sales price for the registrant's common stock, as reported in the Wall Street Journal, was \$564,818,919 (calculated by excluding shares owned beneficially by directors, officers and stockholders owning more than 10% of outstanding stock from total outstanding shares solely for the purposes of this response).

Number of shares of registrant's common stock outstanding as of August 31, 1994: 7,702,100

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in this report:

1994 Annual Report for the Year ended June 30, 1994  
(Part II of this Report)

Definitive Proxy Statement in connection with 1994 Annual Meeting of Stockholders  
(Part III of this Report)

The 1994 Annual Report and 1994 Proxy Statement shall be deemed to have been "filed" only to the extent portions thereof are expressly incorporated by reference.

## PART I

### Item 1. Business

#### General

America Online, Inc. ("AOL" or the "Company") is a leading provider of online services in the United States. AOL offers subscribers a wide variety of services, including electronic mail, conferencing, software, computing support, electronic magazines and newspapers, online classes and Internet access. AOL's proprietary software, emphasizing ease-of-use and visually appealing graphics, provides subscribers with access to AOL services from a broad range of personal computers and certain other emerging types of personal electronic devices. AOL focuses on maximizing the interactive nature of its offerings by providing services which encourage subscribers to share information and ideas in areas where they have common interests. AOL believes that by creating such highly interactive "electronic communities" it will more effectively stimulate subscriber growth, usage and retention. AOL has experienced rapid growth in its subscriber base, reaching more than 900,000 subscribers at the end of fiscal 1994, an increase of approximately 200% during the past fiscal year.

AOL was incorporated in Delaware on May 24, 1985. AOL's principal executive offices are located at 8619 Westwood Center Drive, Vienna, Virginia 22182. Its telephone number at that address is (703) 448-8700.

#### Market Overview

Online services enable people using personal computers or other access devices to interact with other people and outside sources of information using telephone line connections channeled through a central host computer. Since the early 1980's, the range of services and the number of people using online services have grown significantly. Link Resources, a New York research firm specializing in interactive media, estimated that 1993 revenues for consumer online services were approximately \$625 million and that such revenues will grow at a projected annual growth rate of approximately 27% to \$1.6 billion in 1997. AOL believes that a number of key factors will contribute to continued growth in the consumer online services market in the 1990's, including:

- ° *Growth of the home computer market* - Growth in ownership and use of home computers is being driven by lower hardware prices, standardization of user-friendly graphical interfaces, expansion to mass-market retail distribution channels and a renewed commitment to the lower end of the computer market among major personal computer manufacturers. In addition, increased exposure to computers in the workplace and at school has resulted in growing use of computers in the home.
- ° *Expansion of modem penetration* - According to Link Resources, 38% of households owning personal computers (i.e., 11 million households) also owned a modem in 1993. AOL expects this percentage to increase in the future, as modems are now being preinstalled in a growing number of new computers. In addition, modem prices have declined substantially, making modems more accessible to both new and existing computer users.
- ° *Growing awareness and use of online services* - Awareness and use of online services is growing rapidly because of broader press coverage of online services, a growing interest in developing a national "information highway" and the promotional and marketing efforts of online service providers. In addition, increased participation and

related promotion on the part of media companies, software publishers and information providers, greater use of electronic mail, and the growing popularity of the Internet and connectivity applications in the business market all are facilitating the expansion of online services.

- *Development of easy to use services* - With the introduction of graphical user interfaces and improved functionality, online services are becoming easier to use. AOL believes continued advances in ease of use will broaden the appeal of online services and will be a significant factor in creating mass market demand for such services.
- *Growth of mobile computing* - Technology advances have reduced the size of personal computers and have led to an increasing range of mobile personal computers, including laptops, notebook and pocket computers and other electronic devices such as the PDA. Increasingly, these devices are incorporating telecommunications capabilities which enable them to access online services at work, at home or while traveling.

### **Business Strategy**

AOL's goal is to capitalize on the growing demand for online services and gain market share by aggressively seeking to build its subscriber base. AOL believes that by continuing to expand its subscriber base, its services will be more active and stimulating to users and will be more attractive to third-party content providers and distributors. In addition, AOL believes that expansion of its subscriber base will create ancillary revenue opportunities such as transaction fees from the sale of merchandise and fees from interactive advertising. To achieve this objective, AOL has implemented the following strategies:

- *Focus on market segmentation* - AOL views the consumer market as a series of specific market segments, as opposed to a homogeneous mass market. AOL seeks to customize its service offerings to meet the needs of specific markets. For example, AOL works with the National Education Association to provide services to meet the needs of educators and with the San Jose Mercury News to develop a local edition of AOL to meet the needs of residents in Northern California.
- *Establish strategic alliances* - AOL has focused on forming strategic alliances in order to leverage its opportunities for the attraction of new subscribers and accelerate the creation of differentiated content. AOL has entered into co-marketing agreements with over 40 personal computer hardware, software and modem companies, including IBM, Compaq, Apple, AST Research, Claris and Practical Peripherals. AOL has also entered into agreements with a number of associations, magazines and other organizations, including SeniorNet and PC World magazine, to cater to the needs of these specific groups. Relationships with media, cable, and TV broadcast companies such as Time magazine, The New York Times, NBC, ABC, CNN, Knight-Ridder and the Tribune have also been established to appeal to local or other special interest audiences.
- *Encourage trials of online services* - To attract new subscribers, AOL provides its custom communications software free of charge, and also provides free usage time to enable subscribers to sample the services. AOL has found that a majority of the people who sample AOL's services on a free trial basis become paying members.
- *Simplified pricing* - In May and July 1993, AOL simplified its pricing structure, by increasing its monthly base rate from \$7.95 to \$9.95 and increasing the number of

hours of connect time included in the base rate from two to five, which AOL believes encourages usage, provides increased value to subscribers and has the potential to increase subscriber retention rates.

- *Develop advanced technology* - AOL has begun the transition from graphical user interfaces (GUI) to multi-media interfaces (MUI) that use photographs, audio and video and is also testing high-speed ISDN connections. For subscribers with direct Internet connections, AOL has created a TCP/IP version of its software to allow high-speed connections with AOL.
- *Emphasize interactivity* - While AOL offers a broad range of services, it focuses, in particular, on maximizing the interactive nature of its offerings by providing services which encourage subscribers to participate in "electronic communities" in areas where they have common interests. AOL believes that these electronic communities result in extended subscription life and help secure AOL's competitive position. For example, AOL has created AARP Online, an interactive forum, to allow members of the American Association of Retired Persons to obtain relevant information and communication with other members and the association.
- *Strategic Acquisitions* - AOL plans to expand its customer base, improve the functionality of its services and create new revenue sources from its customer base by seeking to acquire technologies, products or businesses complimentary to AOL's business. If and when appropriate acquisition opportunities become available, AOL intends to pursue them actively.
- *Develop International Market* - AOL intends to pursue a global initiative, with an initial focus on Japan and Europe. AOL plans to utilize its established technologies, brands, audiences, content and experience to enter the international markets.

To further implement these strategies, AOL recently created four new operating divisions, AOL Services Company, Internet Services Company, AOL International, and AOL Technologies.

While dynamics in the personal computer market will continue to influence online services, AOL believes that the evolution toward digital architectures is leading to the creation of new generations of personal communications products, such as PDAs, cable capable personal computers, interactive television systems and screen-based telephones. New communications conduits, including such alternatives as wireless systems, broadband hybrid networks and direct broadcast satellite systems, as well as the growth and improved accessibility of the Internet, may further increase the range of alternatives for consumers. While there is much uncertainty about the pace of these developments, AOL believes that collectively they enhance the growth potential for the interactive services market.

AOL intends to continue to make investments to address these new opportunities. For example, during fiscal 1993, AOL announced plans to enable users of an alternative access device, PDA, to access its services and in fiscal 1994 has announced agreements with several manufacturers of PDAs. In October 1993, AOL commenced shipment of a palmtop edition of its product bundled with Tandy and Casio PDAs. Additionally, AOL is investing to adapt its online services platform to other access devices, television and conduits, including cable and wireless communications. In December 1993, AOL announced that it was participating with Intel and General Instruments in cable trials to deliver its consumer online services to personal computers via cable networks.

In August 1994, AOL closed a merger (the "Merger") with Redgate Communications Corporation ("Redgate") pursuant to which the Company will operate Redgate as a wholly-owned subsidiary out of Redgate's existing headquarters in Vero Beach, Florida.

AOL believes that the Merger provides a significant strategic opportunity for AOL to enhance its ability to compete effectively in the online services industry by operating two companies that share very similar strategies and focus. AOL believes that the Merger with Redgate will:

- strengthen AOL's competitive position by enabling it to use multimedia functionality to improve its online service;
- provide AOL with a means to develop new revenue streams from the creation of electronic shopping marketplaces and advertising, which are important in the evolution of interactive services into a mass medium;
- provide AOL with an increased base of experienced marketing, development and advertising personnel who have extensive multimedia content and interactive marketing skills;
- allow AOL to offer to its information providers a broader range of services, such as multimedia publishing options through the AOL online service, alternate media channels for distribution, including CD-ROM, and other media applications;
- provide AOL with content for its online service that is owned by or made available to Redgate;
- provide AOL with experience in designing and marketing content in CD-ROM format and in a broadband environment, such as PC cable/modem or interactive television; and
- allow AOL to leverage Redgate's relationships with its corporate customers by obtaining their content and marketing for AOL's online service and gaining access to their customers.

## Services

AOL offers a broad range of services and content designed to meet the varied needs of its subscribers, including electronic mail, conferencing, software, computing support, electronic magazines and newspapers, online classes, and Internet access. A key feature of AOL's services is the ease with which subscribers with related interests can communicate through real-time conferences, electronic mail and bulletin boards. This interactive communications functionality is available throughout AOL's various services. Subscribers use these interactive communications facilities to share information and ideas, exchange advice and socialize. AOL promotes real-time online communication by scheduling conferences of discussions on specific topics. Electronic mail services allow subscribers to send messages to other members' private electronic mailboxes, or to non-subscribers via fax, U.S. mail or an international electronic mail gateway. Public bulletin boards allow subscribers to share information and opinions on subjects of general or specialized interest. With respect to content, it is AOL's goal to continue adding new sources of information to make the America Online service more compelling. The range of services offered by AOL is currently presented on the America Online service in the following departments:

- *Computing* - AOL provides its subscribers access to tens of thousands of public domain and "shareware" software programs that subscribers can transfer to their own disks to keep and use. Subscribers can get assistance from more than 100 hardware and software developers such as Claris and WordPerfect who support their products online by meeting with their customers in conferences and by answering questions

posted on electronic bulletin boards. Additionally, subscribers can access information from magazines such as MacWorld, PC World and Compute, talk to editors and interact with other subscribers.

- *Learning and Reference* - AOL's education services allow adults and children to learn without leaving their homes. AOL contracts with professional teachers to teach real-time interactive classes in subjects of both general academic interest and adult education (for example, creative writing and gourmet cooking). Regular tutoring sessions are also offered to give students help with subjects such as English, biology, and math. An online Compton's Encyclopedia is offered which can be searched for topics of interest. Education service and content providers include:

Library of Congress  
National Geographic  
College Board  
CNN  
National Education Association  
Smithsonian  
Simon & Schuster  
BKG America

Road and Track  
Consumer Reports  
Disney Adventures  
Barrons Booknotes  
Popular Photography  
American Federation of Teachers  
Electronic University Network

- *News and Finance* - AOL offers a broad range of information services, including domestic and international news, weather, sports, reports, stock market prices and personalized portfolio tracking. AOL provides a search capability which enables subscribers to quickly scan the news wires to locate stories of interest. News and financial information service and content providers include:

The New York Times  
Chicago Tribune  
San Jose Mercury News  
Time  
The New Republic  
Scientific American  
The Monthly Business Report

NBC  
ABC  
Hoovers Handbook Database  
The Atlantic Monthly  
Reuters  
Morningstar Mutual Funds

- *Travel and Shopping* - AOL offers various travel and shopping reference materials and transaction services. Examples include:

EAAasy Sabre  
Comp-U-Store  
Auto Vantage  
Classifieds  
800-Flowers

Computer Express  
PC Catalog  
Independent Traveler  
Shoppers Express  
Weissman Travel Reports

- *Games and Entertainment* - AOL provides various clubs and forums for topics such as gaming and sports, multi-player on-line games and other related content. Examples include:

Comedy Clubs  
The Trivia Club  
The Grandstand  
Neverwinter Nights

Omni  
Rabbit Jack's Casino  
Play-by-Mail Games  
Book and Movie Review

*Lifestyles and Interest* - AOL's service provides a collection of more than 40 clubs and special interest forums dedicated to hobbies and support groups. In addition, AOL works with various organizations to provide specialized content and areas on its service. Examples include:

SeniorNet	MTV
BikeNet	Saturday Review
National Space Society	Aviation Club
Astronomy Club	Cooking Club
Backpacker	Environmental Club
Bicycling	Baby Boomers Forum
American Association of Retired Persons	National Museum of American Art

- *People Connection* - AOL offers an interactive area that serves as the center or meeting place of AOL's online subscriber community. Subscribers enter a "lobby" or "meeting room" and are able to participate in lively interactive discussions with other subscribers. Subscribers can create public or private "rooms" for teleconferencing, and can send messages that will be received instantaneously, regardless of the recipient's location with AOL's service.

In addition to the above departments, AOL provides access to the Internet. The Internet was originally developed for use principally by academics, scientists and corporate users seeking access to university databases across the United States. In order to use the Internet effectively, users had to have access to powerful computers and be able to navigate their way through the complex network with minimal assistance. AOL's goal is to "consumerize" the Internet by using its proprietary software to simplify the processes of connecting to and using the Internet and to charge for access to the Internet under AOL's standard pricing structure. Over the past several months, AOL has expanded its Internet offerings to include USENET Newsgroups and WAIS and Gopher databases, in addition to its existing E-mail gateway and mailing list capabilities. AOL plans to offer other popular Internet features, such as file transfer protocol (FTP) and Telnet by the end of 1994. Additionally, AOL testing of TCP/IP network connection via the Internet is underway, thereby expanding the opportunity to experiment with high speed delivery.

Subscribers currently connect to AOL's services using standard phone lines. AOL has contracted with third party data networks so that subscribers in more than 700 cities in the United States and Canada can dial a local number to connect to its services. The cost of using these local access numbers is paid for by AOL and included in the standard rates charged to subscribers. AOL believes that online services will be delivered in the future over other conduits, including other wire line and wireless systems. AOL does not own its existing communication network system but is investing in the development of technologies to deliver its services using these alternate conduits so as to participate in these market opportunities.

AOL's online services are available on the leading personal computer operating systems, including Windows, DOS and Macintosh and are available on PDAs. The new versions of Windows and Macintosh which AOL plans to release will improve the interface design and add service functionality and multimedia capabilities.

## Marketing

The overall goal of AOL's marketing program is to increase the visibility of the America Online brand and to make it easy for consumers to try its services. AOL attracts new subscribers through independent direct marketing programs and a variety of other cooperative marketing efforts.

*Independent Marketing* - AOL implements a variety of targeted, direct marketing programs aimed at the installed base of personal computer and modem owners. These programs include advertising in computer-related magazines, direct mail and subscriber referral programs. During 1993, AOL began marketing its services by including a starter kit with various computer-related magazines and offering the Official America Online Tour Guide.

*Partner Marketing* - AOL works with two types of marketing partners:

- *Bundling/OEM* - AOL has entered into marketing agreements with a number of personal computer, modem and software companies, including IBM, Compaq, Apple, AST Research, Dell Computer, U.S. Robotics, Hayes and Practical Peripherals.
- *Affinity Groups/Associations* - AOL has agreements with affinity groups and associations as well as other third parties who market America Online directly to their specialized customer bases. For example, the Tribune Company, The New York Times and Knight-Ridder each currently offer "local editions" of America Online which include content from a variety of local sources, and Scholastic, Inc. markets a special edition of America Online under the Scholastic Network to its customer base. A major objective of both the affinity group and special edition initiatives of AOL is the development and expansion of electronic communities stimulating interaction between subscribers with shared interests. In this area, AOL believes it has created a distinctive element of its America Online brand.

AOL's services are priced on a monthly subscription basis. Subscriptions are automatically renewed each month, and fees are electronically charged to credit cards or debited from checking accounts until a subscriber requests cancellation. During fiscal 1994, average monthly net service revenue per paying subscriber was approximately \$15.00. As of June 30, 1994, AOL had a total of approximately 900,000 subscribers, including subscribers in their 30-day trial period.

AOL believes that pricing is an important element of its strategy to gain market share. In May 1993, AOL implemented a new pricing structure in order to attract new subscribers, encourage increased usage, enhance the value of its services and improve subscription retention. AOL increased the standard monthly membership fee to \$9.95 from \$7.95 and increased the number of hours included to five per month from two per month. Additionally, the number of no-charge trial hours in the first month of membership was increased in April 1993 from five to ten. Effective July 1, 1993 the hourly fee for usage beyond that included with membership was lowered to \$3.50 from \$6.00.

Once a customer subscribes, AOL implements retention marketing programs designed to increase customer loyalty and satisfaction and to maximize the customer subscription life. These retention programs include regularly scheduled online events and conferences, online promotions of new services and additions of new software programs. In addition, AOL provides a variety of support mechanisms such as online support and telephone support service.

## Licensing

In December 1992, AOL entered into a seven year licensing and development agreement with Apple (with renewal provisions exercisable by Apple to extend the agreement through November 30, 2004). Under the agreement, AOL granted to Apple a non-exclusive license to use the America Online services platform to provide Apple-branded online services, and agreed to provide development services to Apple on a fee-for-services basis. The agreement provides that AOL receives product development funding over the first 18 months of the agreement leading up to the commercial launch of the Apple-branded online service, which occurred in June 1994 under the name e-World. In addition to product development funding, AOL will receive a royalty based on usage, with a total minimum royalty of \$15 million over the first five-year period following the commercial launch of the Apple-branded online service, and a minimum royalty of \$5 million per year thereafter. The minimum royalty is subject to reduction or elimination in the event of a material breach of the agreement by AOL or "a change of control" (as defined in the agreement) of AOL. Under the Apple agreement, a "change in control" includes an acquisition of over 37.5% of AOL's voting stock.

In the event of termination of the Apple agreement by Apple following a change in control of AOL, Apple would be granted possession of the source code from which its online service and related products are derived.



Apple would remain a licensee of AOL for 10 years after the date of a change of control, although five years after the change of control, Apple would have the right to transfer its license to a third party. The maximum amount of royalty payments payable to AOL by Apple during the 10 year period following such a termination would decline during that period, eventually reaching zero on the tenth anniversary of the date of the change of control of AOL.

As part of the agreement, AOL issued to Apple a warrant to purchase 500,000 shares of AOL Common Stock at an exercise price of \$25.00 per share. In the event of a change in control of AOL, Apple would have the option to receive a cash payment from AOL equal to the difference between the maximum consideration paid for AOL's Common Stock in the change of control transaction and \$25.00 for each share of AOL Common Stock not yet purchased under the warrant.

#### **Software and Services Development**

AOL has developed proprietary software that makes its services easy to use and visually appealing and exploit the capabilities of each electronic device it supports. In addition, AOL has developed an architecture based on a proprietary command language which enables graphic processing to be handled by a personal computer. Consequently, AOL can deliver a rich graphical environment with a rapid response time.

In addition, AOL conducts ongoing development activities and licenses technology from third parties with the goal of making access to its service easier and improving the functionality of the service so it is easier to use. AOL believes that ease of use is a very important attribute and will become increasingly more important as consumer online services become a mass market service. Over the next several months, AOL plans to release new versions of its Windows and Macintosh software that will provide new interface design, multimedia capabilities and added service functionality.

In addition, AOL conducts ongoing development activities aimed at making access to its service easier and improving the functionality of the service so it is easier to use. AOL believes that ease of use is a very important attribute and will become increasingly more important as consumer online services become a mass market service.

At present, the primary way to access AOL's services is through a personal computer connected to a telephone wire through a modem. AOL expects new alternative access devices, such as screen-based telephones and televisions, as well as alternate wired and wireless conduits, to become viable alternative delivery systems in the 1990's and broaden the potential market for online services. In October 1993, AOL commenced shipment of a palmtop edition of its product bundled with the Tandy and Casio PDAs. Additionally, AOL is investing to adapt its online services platform to other access devices and conduits, including television, cable and wireless communications.

#### **Computer and Network Operations**

AOL's host computer system consists of a series of Stratus fault tolerant mini-computers connected by a token ring network and Hewlett-Packard workstations. The configuration permits expansion of capacity by the addition of computers and disks and also provides redundancy of key applications for improved system reliability.

AOL's data center consists of two independent computer rooms, each of which has its own FM200 fire suppression system and air conditioning. The data center is further protected by a UPS (uninterruptible power supply) system that provides a short-term battery backup. Admittance to the data center is restricted through the use of a card-key security lock. Software and related data files are backed up regularly and stored off site.

AOL's telecommunications network consists of the public packet switching networks provided by U.S. Sprint, B.T. Tymnet and Datapac. Through these networks, subscribers in more than 700 cities in the United

States and Canada can dial a local number to connect to AOL's services. U.S. Sprint is AOL's primary provider of both voice and data telecommunications services.

In April 1993, AOL entered into an agreement with Sprint which, as amended, has a term ending in March 1999 and provides AOL with more favorable daytime and higher speed access pricing, and a higher grade of service by Sprint for network services. Under the agreement, Sprint received a warrant, which it may exercise during the term of the agreement, subject to Sprint's meeting its performance standards under the agreement, to purchase 450,000 shares of AOL Common Stock at an exercise price of \$31.25 per share.

## Competition

The consumer online services market is highly competitive. AOL's competitors range from small companies with limited resources to large companies with substantially greater financial, technical and marketing resources than those of AOL. Major direct competitors include Prodigy, a joint venture of IBM and Sears, CompuServe, a division of H&R Block, and Apple through its new online service, e-World. Genie, a division of General Electric Information Services, and Delphi, a company owned by News Corporation, are also competitors. AOL believes that existing competitors are likely to expand their service offerings and that new competitors, including AT&T and other computer software/services, telephone and media companies, are likely to enter the consumer online services market, resulting in greater competition for AOL. Microsoft and Ziff-Davis have announced plans to introduce online services that are expected to be competitive with AOL. Competition is also expected from newly created companies that are providing access to the Internet and tools to information providers to enable them to publish electronically on the Internet. Competitive pressures could result in reduced market share, price reductions and increased spending on marketing and product development, which could adversely affect AOL's financial condition and operating results.

AOL believes the principal competitive factors in the consumer online services industry include product features and quality, ease of use, access to distribution channels, advertising, brand recognition, reliability and price. AOL believes that it competes effectively in these areas. AOL's strategy of segmenting the market, focusing on interactive communications services, establishing strategic alliances with third party companies and providing simple and affordable pricing should help AOL compete.

## Employees and Independent Contractors

As of June 30, 1994, AOL had 527 employees, including 144 in software and content development, 298 in customer support (including 15 part-time employees) 28 in marketing, 25 in operations and 32 in corporate and finance. AOL believes that its relations with its employees are good. None of AOL's employees is represented by a labor union, and AOL has never experienced a work stoppage.

## Proprietary Rights

AOL relies upon a combination of contract provisions and copyright, trademark and trade secret laws to protect its proprietary rights in its products. AOL distributes its products under agreements that grant subscribers a license to use AOL's products and services and relies on the protections afforded by the copyright laws to protect against the unauthorized reproduction of AOL's products. In addition, AOL attempts to protect its trade secrets and other proprietary information through agreements with employees and consultants. Although AOL intends to protect its rights vigorously, there can be no assurance that these measures will be successful.

AOL seeks to protect the source code of its products as a trade secret and as an unpublished copyright work. AOL does not believe that patent laws are a significant source of protection for AOL's products. AOL also has obtained federal trademark registration of the name America Online and has trademark rights to a number of other proprietary names.

AOL believes that due to the rapid pace of innovation within its industry, factors such as the technological and creative skills of its personnel are more important in establishing and maintaining a leadership position within the industry than are the various legal protections of its technology.

AOL believes that its products, trademarks and other proprietary rights do not infringe on the proprietary rights of third parties. From time to time, however, AOL has received communications from third parties asserting that features or contents of certain of its services may infringe copyrights and other rights of such parties. To date, no litigation has commenced and no such claims have had an adverse effect on AOL's ability to develop, market and sell its products or operate its services. There can be no assurance that third parties will not assert infringement claims against AOL in the future with respect to current or future features or contents of services or that any such assertion may not require AOL to enter into royalty arrangements or result in litigation.

#### **Government Regulation**

AOL is not subject to direct regulation other than regulation applicable to businesses generally. However, changes in the regulatory environment relating to the telecommunications and media industry could have an effect on AOL's business, including regulatory changes which directly or indirectly affect telecommunication costs or increase the likelihood or scope of competition from regional telephone companies. Additionally, various proposed legislation is pending before Congress which would impose additional regulations and obligations on online service providers such as AOL. Management cannot predict the likelihood that any such legislation will pass, or if passed, the financial impact, if any, the resulting regulation may have on its business. See also, "Competition."

#### **Item 2. Properties**

In July 1993, the Company purchased the 100,000 square foot office building in Vienna, Virginia in which its offices are located. Additionally, in August 1994, the Company expanded its customer support facilities with the addition of approximately 18,700 square feet of leased office space in Tucson, Arizona. The term of the Tucson lease expires in September 1999. The Company is in the process of executing a lease for additional new office space of approximately 49,618 square feet adjacent to its current Vienna, Virginia office building. The Company believes that with this additional lease it has adequate space for its present needs.

#### **Item 3. Legal Proceedings**

The Company is party to legal proceedings which arise in the course of its business, which, in the opinion of management, will not have a material adverse affect on the Company's financial condition.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

Not Applicable.

## **PART II**

### **Item 5. Market for Registrant's Common Equity and Related Stockholder Matter**

Information relating to the market for the Company's Common Stock, the number of stockholders of record of Common Stock and the Company's policy with respect to the payment of dividends is set forth under the caption "Stockholder Information" on page 30 of America Online's 1994 Annual Report, a copy of which is filed herewith as Exhibit 13.1 (the "1994 Annual Report"). Such information is incorporated herein by reference in response to this Item 5.

### **Item 6. Selected Financial Data**

Selected financial data for America Online for each of the last five fiscal years appears on page 14 of the 1994 Annual Report and is incorporated herein by reference in response to this Item 6.

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations, appearing on pages 15 through 18 of the 1994 Annual Report, is incorporated herein by reference in response to this Item 7.

### **Item 8. Financial Statements and Supplementary Data**

Reference is made to the financial statements listed under the heading "(a)(1) Financial Statements" of Item 14 herein, which financial statements are incorporated herein by reference in response to this Item 8.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

### **PART III**

#### **Item 10. Directors and Executive Officers of the Registrant**

Information relating to America Online's directors and executive officers is included in its definitive Proxy Statement in connection with its 1994 Annual Meeting of Stockholders (the "1994 Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended June 30, 1994, under the captions "Management—Directors," "Management—Executive Officers" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" and is incorporated herein by reference in response to this Item 10.

#### **Item 11. Executive Compensation**

Information relating to executive compensation is set forth in the 1994 Proxy Statement under the captions "Executive Compensation," and "Report of Compensation Committee on Executive Compensation" and is incorporated herein by reference in response to this Item 11.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

Information relating to ownership of the Company's Common Stock by management and certain other beneficial owners is set forth in the 1994 Proxy Statement under the caption "Share Ownership" and is incorporated herein by reference in response to this Item 12.

#### **Item 13. Certain Relationships and Related Transactions**

Information relating to certain relationships and related transactions is set forth in the 1994 Proxy Statement under the caption "Certain Relationships and Related Transactions," and is incorporated herein by reference in response to this Item 13.

## PART IV

### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

#### (a)(1) Financial Statements

The following financial statements of America Online, Inc. and the Report of Independent Auditors thereon are included in the 1994 Annual Report and are incorporated herein by reference in response to this Item 14:

	1994 Annual Report Page
Statements of Income for the years ended June 30, 1994, 1993, and 1992	19
Balance Sheets as of June 30, 1994 and 1993	20
Statements of Changes in Stockholders' Equity (deficiency) for the years ended June 30, 1994, 1993, and 1992	21
Statements of Cash Flows for the years ended June 30, 1994, 1993, and 1992	22
Notes to Financial Statements	23
Report of Independent Auditors	29

#### (a)(2) Financial Statement Schedules

##### I. Marketable Securities--Other Investments

##### X. Supplementary Income Statement Information

All other financial statement schedules required by Item 14(a)(2) have been omitted because they are inapplicable or because the required information has been included in the Financial Statements or Notes thereto.

#### (a)(3) Exhibits

The following Exhibits are incorporated herein by reference or are filed with this report as indicated below. The 1994 Annual Report and 1994 Proxy Statement shall be deemed to have been "filed" only to the extent portions thereof are expressly incorporated herein by reference. Copies of exhibits will be furnished, upon request, to holders or beneficial owners of America Online, Inc. Common Stock as of September 23, 1994, subject to payment in advance of a fee of 25 cents per page to reimburse America Online, Inc. for reproduction costs.

## EXHIBIT LIST

<u>Exhibit No.</u>	<u>Description</u>
(5) 2.1	— Agreement and Plan of Reorganization, dated May 11, 1994, as amended among Registrant, RCC Acquisition Corporation and RCC Communications Corporation
(1) 3.1	— Restated Certificate of Incorporation of the Registrant
(4) 3.2	— Restated By-Laws of the Registrant
(2) 4.1	— Article 4, Article 6 and Article 8 of the Restated Certificate of Incorporation (see Exhibit 3.1)
(2) 4.2	— Form of Common Stock Certificate
(5) 4.3	— Rights Agreement dated as of April 23, 1993, including Exhibit A (Certificate of Designation setting forth the terms of Series A Junior Participating Preferred Stock, \$.01 par value), Exhibit B (Form of Right Certificate) and Exhibit C (Summary of rights to Purchase Series A Junior Participating Preferred Shares)
(2) 10.1	— Series C Preferred Stock Purchase Agreement, dated as of February 20, 1987, as amended, by and among the Registrant, Citicorp Venture Capital Ltd., Allstate Insurance Company, INCO Securities Corporation, North American Partners Limited Partnership, Merrill, Pickard, Anderson & Eyre II, Union Venture Corporation, Excelsior II, Excelsior Venture Capital Holdings (Jersey) Ltd., H & Q Ventures International C.V., Hamquist, H & Q Investors, H & Q Ventures III, Hamco Capital Corporation and Daniel H. Case, III
(2) 10.2	— Amendment to Series C Preferred Stock Purchase Agreement, dated September 10, 1987, by and among the Registrant, Kleiner, Perkins, Caufield & Byers II, Citicorp Venture Capital Ltd., Allstate Insurance Company, INCO Securities Corporation, North American Partners Limited Partnership, Merrill, Pickard, Anderson & Eyre II, Union Venture Corporation, Excelsior II, Excelsior Venture Capital Holdings (Jersey) Ltd., H & Q Ventures International C.V., H & Q Ventures III, H & Q Investors, Hamquist, Hamco Capital Corporation, and Daniel H. Case, III
(2) 10.3	— Series D Preferred Stock Purchase Agreement, dated as of September 27, 1991, as amended, between the Registrant and Tribune Company
(2) 10.4	— Warrant Purchase Agreement, dated as of June 29, 1987, as amended, by and among the Registrant, United States Portfolio Leasing, and Hambrecht & Quist Leasing Partners
(2) 10.5	— Non-Qualified Stock Option Agreement, dated as of December 15, 1987, as amended, between the Registrant and INCO Securities Corporation
10.6	— Sale-Purchase Agreement, dated April 23, 1993, between WW Realty, Inc. and Registrant
(2) 10.7	— Agreement between International Business Machines Corporation and the Registrant, dated May 18, 1990
(2) 10.8	— Letter Agreement, dated August 14, 1991, between Tribune Company and the Registrant
(2) 10.9	— Master Agreement for Data Communications Service, dated July 3, 1985, as amended on May 13, 1991, and an order for Communications Service Network Services pursuant thereto, dated January 15, 1992, between the Registrant and GTE Telenet Communications Corporation
(2) 10.10	— Lease Agreement, dated July 6, 1990, between the Registrant and Bell Atlantic Systems Leasing International

## EXHIBIT LIST (continued)

<u>Exhibit No.</u>	<u>Description</u>
(3) 10.11	— The Registrant's Employee Stock Purchase Plan
(2) 10.12	— The Registrant's 1992 Employee, Director and Consultant Stock Option Plan
(2) 10.13	— The Registrant's Incentive Stock Option Plan, 1987 Restatement
(2) 10.14	— The Registrant's 1987 Stock Incentive Plan
(2) 10.15	— Amendment One to the Registrant's 1987 Stock Incentive Plan
(6) 10.16	— Master Agreement for Data Communications and Warrant Purchase Agreement dated May 25, 1993 between Sprint Communications Company L.P. and the Registrant
10.17	— First Amendment to Master Agreement for Data Communications, dated June 30, 1994, between Sprint Communication Company L.P. and the Registrant
10.18	— Sublease Agreement, dated August 8, 1994, between Lovitt & Touche, Inc. and Registrant
11.1	— Calculation of Per Share Amounts
13.1	— America Online, Inc. 1994 Annual Report to Stockholders
23.1	— Consent of Ernst & Young LLP
24.1	— Powers of Attorney

(1) Filed as part of the Registrant's filing on Form 10-Q for the quarter ended March 31, 1992 (file no. 0-19836) and incorporated herein by reference.

(2) Filed as part of the Registrant's filing of a registration statement on Form S-1 (file no. 33-45585) and incorporated herein by reference.

(3) Filed as part of the Registrant's filing of a registration statement on Form S-8 (file no. 33-48447) and incorporated herein by reference.

(4) Filed as part of the Registrant's filing on Form 10-K for the year ended June 30, 1992 (file no. 0-19836) and incorporated herein by reference.

(5) Filed as part of the Registrant's filing of a registration statement on Form S-4 (file no. 33-82030) and incorporated herein by reference.

(6) Filed as part of the Registrant's filing on Form 10-K for the year ended June 30, 1993 (file no. 0-19836) and incorporated herein by reference.

### EXHIBITS WITH NO REFERENCE ARE FILED HEREWITH

- (b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the last quarter of the fiscal year ended June 30, 1994.



SCHEDULE 1 - MARKETABLE SECURITIES - OTHER INVESTMENTS  
 AMERICA ONLINE, INC.  
 Year Ended June 30, 1994

Name of Issuer and Title of Each Share	Number of Shares or Units - Principal Amounts of Bonds and Notes	Cost of Each Issue	Market Value of Each Issue at Balance Sheet Date	Amount at Which Each Portfolio of Equity Security Issues and Each Other Security Issue Carried on the Balance Sheet
<b>CORPORATE BONDS/NOTES</b>				
Wachovia Bank	\$234,000	\$234,000	\$236,000	\$236,000
Wachovia Bank	2,994,000	2,994,000	3,000,000	3,000,000
Morgan Guaranty Trust	800,000	800,000	807,000	807,000
AT&T Capital Mortgage	3,000,000	3,000,000	3,026,000	3,026,000
Case Equipment Loan	2,845,000	2,845,000	2,861,000	2,861,000
FMCC Mortgage	2,991,000	2,991,000	3,013,000	3,013,000
		<u>\$12,864,000</u>	<u>\$12,943,000</u>	<u>\$12,943,000</u>
<b>U.S. GOVERNMENT OBLIGATIONS</b>				
Federal Farm Credit	\$1,000,000	\$1,000,000	\$1,008,000	\$1,008,000
U.S. Treasury Notes	4,977,000	4,977,000	5,041,000	5,041,000
U.S. Treasury Notes	4,973,000	4,973,000	5,060,000	5,060,000
		<u>\$10,950,000</u>	<u>\$11,109,000</u>	<u>\$11,109,000</u>

**AMERICA ONLINE, INC.**  
**SUPPLEMENTARY INCOME STATEMENT INFORMATION**  
(Amounts in thousands)

**SCHEDULE X**

	Year ended June 30,		
	1994	1993	1992
Maintenance and repairs	\$ 767	\$ 502	\$ 396
Depreciation and amortization of intangible assets, preoperating costs and similar deferrals:			
Subscriber acquisition costs	17,922	7,038	3,991
Product development costs	1,135	792	553
Amortization of software licenses	73	57	149
Taxes, other than payroll and income taxes:			
Personal property tax	288	(59)	123
Business license tax	92	55	45
Royalties	4,454	1,745	1,312

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 28th day of September 1994.

AMERICA ONLINE, INC.

BY: /s/LENNERT J. LEADER  
Lennert J. Leader  
Senior Vice President  
and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 28th day of September 1994.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
* _____ James V. Kimsey	Chairman of the Board and Director	September 28, 1994
/s/STEPHEN M. CASE _____ Stephen M. Case	President, Chief Executive Officer and Director (principal executive officer)	September 28, 1994
/s/LENNERT J. LEADER _____ Lennert J. Leader	Senior Vice President, Finance & Administration, Chief Financial (principal financial and accounting officer)	September 28, 1994
* _____ James G. Andress	Director	September 28, 1994
* _____ Frank J. Caufield	Director	September 28, 1994
* _____ Alexander M. Haig, Jr.	Director	September 28, 1994
* _____ William N. Melton	Director	September 28, 1994
* _____ Scott C. Smith	Director	September 28, 1994

\*By: /s/ LENNERT J. LEADER  
Lennert J. Leader, as  
Attorney-in-Fact for each  
of the persons indicated